



BY EMAIL and RESS

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October 31, 2018
Our File No. 20180016

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2018-0016 – Alectra 2019 Rates

We are counsel for the School Energy Coalition ("SEC"). Pursuant to Procedural Order #2 in this matter, this letter constitutes SEC's submissions on issues to be heard orally or in writing.

SEC believes that there are four issues that may be the subject of disagreement between the Applicant and the customer groups. Those are the three issues identified by the Board in PO#2, plus the calculation of the LRAMVA. We will deal with each of them in turn.

Incremental Capital Module

The Applicant is seeking ICM funding for five projects.

Transformer Catchup Program (ERZ) - \$7.5 million. There are two issues with this proposal:

- a) Does the Board's decision in EB-2017-0024 imply that this should be included in the normal transformer replacement program in 2019?
- b) Is the pacing for this program appropriate?

With respect to the first, SEC will have no questions requiring oral evidence. With respect to the second, the Applicant has provided some information on pacing, but the Board may benefit from hearing an explanation of the pacing approach from the Applicant.

Rometown Subdivision Rebuild (ERZ) - \$3.2 million. The main issue for this project is how, if at all, it is different from normal subdivision rebuilds carried out by the Applicant pretty well every year, and thus considered part of the normal capital budget. There is evidence on the record about this. If the Board determines that this project should be considered in an oral hearing, SEC will have cross-examination of the Applicant's witnesses. However, if it is not included in the oral hearing, SEC is in a position today to make submissions on this project.

Bathurst Road Relocation (PRZ) - \$5.5 million. SEC does not have any issues with this project that would require oral evidence.

Barrie TS Support Work (PRZ) - \$2.1 million. There are two issues with this project:

- a) It is reasonable to expect in-service in 2019?
- b) Is this project big enough to have any impact on the capital budget of the Applicant?

SEC believes that the first issue would benefit from oral evidence and cross-examination. On the second issue, SEC does not expect to have any questions.

York Region Rapid Transit (PRZ) - \$13.2 million. There appear to be two issues associated with this project:

- a) What are the reasonable forecasts for 2019? The forecast and actual spending has been divergent so far, and there have been many forecasts already for 2019 and beyond. This raises the question of whether recovery through a means other than the ICM, such as a variance account, would be more appropriate.
- b) Is the Applicant ensuring that it minimizes its costs in this project? There is already evidence that the costs are going up substantially, largely because the transit authority adds more work for the utility. There is no evidence that the Applicant is negotiating with the transit authority to manage the costs borne by the customers.

SEC expects it would have questions on both issues in an oral hearing. On the first issue, we believe we could do submissions today, but that the Board might benefit from a further explanation of the variances and high levels of forecast uncertainty, much of which may be out of the Applicant's control. On the second issue, SEC would find it difficult to make submissions without first cross-examining the utility witnesses.

Earnings Sharing Mechanism (HRZ)

The first issue with the calculation of the Horizon earnings for sharing purposes is the allocations of costs between the Applicant's rate zones. The Applicant has provided a calculation of the HRZ earnings, which appear to be much lower than previous years when adjusted for the affects of the capitalization policy. It is not possible, on the evidence currently before the Board, to determine whether this is because of the allocations, or some other reason.

SEC believes that it is essential to have further discovery on the allocations of costs between the four rate zones. The Board recognized this in the EB-2016-0025 decision, and the question the Board enunciated at that time has in fact arisen. Interrogatories have been asked to find out more, but the Applicant has refused to provide complete answers. SEC has attached to this

letter a table showing the information that we believe the Board requires to assess the fairness of the ESM calculation. In our view, the Board and the parties would be best served if that information were to be provided in advance of a hearing, and then tested by way of cross-examination in an oral hearing.

We note that the nature of this information is such that dealing with it in a technical conference is probably not sufficient. The Applicant's refusals demonstrate that it is unwilling to be transparent with respect to the allocation of costs between rate zones, and the calculation of their respective ROEs. In a technical conference, there is no way to compel the Applicant to answer questions, whereas in an oral hearing the Board can assess what information it wants to hear, and direct the witnesses to answer.

The second issue on ESM is the interaction between the ESM calculation and the change in capitalization policy. When the Board ordered that the change in capitalization policy for HRZ should be included in the ESM calculation, it was not aware the result would be that almost all of the change – several million dollars - would go to the benefit of the utility shareholders. This is clearly inconsistent with the Board's decision.

On this second issue, SEC is of the view that with the details provided with respect to the first issue, the record will be sufficient. While SEC would want to ask questions about all components of the table, the matter of whether the result matches what the Board intended is a matter for argument.

Capitalization Policy

The Applicant has provided calculations of the impact of the capitalization policy. Those calculations show significantly lower impacts (i.e. net refunds to customers) than would be the case under a more traditional calculation.

The main difference appears to be the question of whether the change in the amount of OM&A should be treated as a change in tax deductions and thus have an impact on the PILs calculation. The Applicant takes the position, for example, that the increased capitalization in the ERZ means a decrease in OM&A, an increase in ROE due to higher rate base, and an increase in PILs due to higher taxable income because the OM&A is reduced. The more traditional approach would be to calculate the net of the decreased OM&A, the increased depreciation, and the PILs increase only due to higher ROE and the CCA/depreciation difference.

For example, for the ERZ the Applicant says that its PILs will increase in 2019 by \$474,721 in 2019 due to the change in capitalization policy. The more correct calculation is that PILs will increase by the increase in ROE (\$65,779) minus the difference between CCA (\$74,642) and depreciation (\$23,968), for a net of \$15,105 increase in taxable income, times the tax rate of 26.5%. The net PILs increase is \$4,003. The decrease in OM&A is not part of the tax calculation, because it has nothing to do with that part of revenue requirement. Further, the non-deductibility of the capitalized OM&A is offset by the deductibility of the rider paid to customers on the net impact. Similar calculations can be done for both BRZ and HRZ, and the total net impact is more than \$1.2 million.

In our view, the Board would probably benefit from oral evidence on this, but it is not essential. What would be essential, SEC believes, is a table in the evidence setting out the agreed difference between the two calculation approaches. We have attached to these submissions such a table, which we have populated with the Applicant's calculations, and what we believe are the correct traditional calculations. We have also provided a live spreadsheet of those calculations along with these submissions, so that if the Applicant disagrees with any of them, it can easily provide an alternative spreadsheet.

There is a second issue related to capitalization policy. Now that we have the figures for 2017, the Board is in a better position to assess how to reflect the change in capitalization in the most efficient manner. It may be, based on the evidence, that the approach of using Account 1576 to adjust rate base over time would work better than annual revenue requirement adjustments, and although that approach was rejected in EB-2017-0024, it should now be reconsidered in light of new information. SEC submits that there is no need to have oral evidence on this part of the capitalization issue.

We have included in the attached calculations of impacts the impacts that would arise using this method. We believe the Board would benefit from agreement between the parties as to these calculations, even if the parties disagree on whether the account 1576 approach is appropriate.

Deferral and Variance Accounts

SEC does not have any questions with respect to deferral and variance accounts. However, other parties may, and we are aware that there is some question about the calculation of the LRAMVA. While it may be better if this were simply sorted out between the parties offline, and presented to the Board, we will leave it to others to comment on whether oral evidence would be helpful.

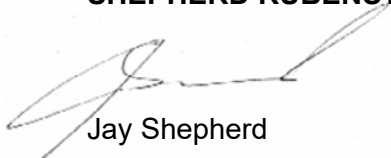
Conclusion

SEC therefore submits that an oral hearing on limited issues would be of assistance to the Board, and that written responses from the Applicant with respect to certain information prior to the hearing would help limit the length and scope of that hearing.

All of which is respectfully submitted.

Yours very truly,

SHEPHERD RUBENSTEIN PROFESSIONAL CORPORATION



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties

Summary Table

	Alectra Method	Traditional Method	Comment
BRZ	1,211,711	1,671,303	Due to shareholder
HRZ	-3,663,089	-5,022,498	Due to customers
ERZ	-1,247,500	-1,716,775	Due to customers
Totals	-3,698,879	-5,067,970	Due to customers

Brampton Rate Zone		
Revenue Requirement Calculation		
OM&A Impact	\$1,830,532	\$1,830,532
Depreciation Impact	-\$22,882	-\$22,882
PILS Impact	-\$465,687	-\$6,095
Return on Capital Impact	-\$130,252	-\$130,252
Total Rev. Req. Impact	\$1,211,711	\$1,671,303
PILs Calculation		
OM&A Impact	-\$1,830,532	
Depreciation Impact	\$22,882	
Change in Net Income before tax	-\$1,807,650	
Change in ROE		-\$67,245
Add back depreciation	-\$22,882	-\$22,882
Deduct CCA	\$73,221	\$73,221
Change in Taxable Income	-\$1,757,311	-\$16,906
Tax at 26.5%	-\$465,687	-\$4,480
Grossed-up Tax	-\$633,588	-\$6,095

Enersource Rate Zone		
Revenue Requirement Calculation		
OM&A Impact	-\$1,866,041	-\$1,866,041
Depreciation Impact	\$23,968	\$23,968
PILS Impact	\$474,721	\$5,446
Return on Capital Impact	\$119,852	\$119,852
Total Rev. Req. Impact	-\$1,247,500	-\$1,716,775
PILs Calculation		
OM&A Impact	\$1,866,041	
Depreciation Impact	-\$23,968	
Change in Net Income before tax	\$1,842,073	
Change in ROE		\$65,779
Add back depreciation	\$23,968	\$23,968
Deduct CCA	-\$74,642	-\$74,642
Change in Taxable Income	\$1,791,399	\$15,105
Tax at 26.5%	\$474,721	\$4,003
Grossed-up Tax	\$645,879	\$5,446

Horizon Rate Zone		
Revenue Requirement Calculation		
OM&A Impact	-\$5,398,529	-\$5,398,529
Depreciation Impact	\$67,482	\$67,482
PILS Impact	\$1,373,386	\$13,977
Return on Capital Impact	\$294,572	\$294,572
Total Rev. Req. Impact	-\$3,663,089	-\$5,022,498
PILs Calculation		
OM&A Impact	\$5,398,529	
Depreciation Impact	-\$67,482	
Change in Net Income before tax	\$5,331,047	
Change in ROE		\$187,226
Add back depreciation	\$67,482	\$67,482
Deduct CCA	-\$215,941	-\$215,941
Change in Taxable Income	\$5,182,588	\$38,767
Tax at 26.5%	\$1,373,386	\$10,273
Grossed-up Tax	\$1,868,552	\$13,977

Adjustment for Capitalization Policy Change Using Account 1576

Component	BRZ	ERZ	HRZ
Increase (-Decrease) in rate base due to higher (lower) capitalized OM&A	-\$1,830,532	\$1,866,041	\$5,398,529
Decrease (-Increase) in rate base due to higher (lower) depreciation	\$22,882	-\$23,968	-\$67,482
Net Increase (-Decrease) in rate base and therefore credit (debit) to 1576	-\$1,807,650	\$1,842,073	\$5,331,047

Table of Allocations for Calculation of HRZ Earnings Sharing

Category	Total Alectra	Allocations				Explanation (if any)	Reconciliation to Alectra Financials
		HRZ	BRZ	ERZ	PRZ		
OM&A - Direct Allocations							
[by expense category]							
OM&A - Formula Allocations							
(i.e. shared costs)							
[by expense category]							
Merger Costs							
Net 2017 OM&A							
Opening Rate Base							
Capital Additions - Direct Allocations							
[by asset category]							
Capital Additions - Formula Allocations							
[by asset category]							
Depreciation							
Asset Retirements - Direct Allocations							
[by asset category]							
Asset Retirements - Formula Allocations							
[by asset category]							
Capital Contributions							
Closing Rate Base							
Average Rate Base for Rev. Req. Purposes							
Income Tax Calculation							
[by categories set out in HRZ-Staff-21]							
Cost of Capital Calculation							
[by categories set out in RRWF p. 7]							
Actual Distribution Revenues							
Revenue Offsets							
Revenue Requirement Calculation							
[by categories set out in RRWF p. 9]							